



1200 New Jersey Avenue, SE
Washington, DC 20590

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As you know, the Department examines the managerial competence of an applicant's key personnel to determine whether they have sufficient business and aviation experience to operate an airline, and whether the management team, as a whole, possesses the background and experience necessary for the specific kind of operations proposed. Based on the current record, the Department is not convinced that FAI's management team has sufficient experience overseeing operations of the scope and size proposed by the applicant. For example, although Mr. Dan Eikleberry, Vice President of Flight Operations, has substantial experience as a pilot operating Boeing 747 aircraft, based on his resume, it appears that Mr. Eikleberry does not have any experience overseeing B-747 scheduled passenger operations in a decision-making capacity. Similarly, although

Mr. D. Wayne Richardson, FAI's Chief Operating Officer, worked for Pace Airlines, Inc., as the Vice President of Operations, he was employed there for only a few months; thus he has minimal experience overseeing scheduled passenger operations.

Further, FAI clearly does not meet the Department's financial fitness requirements. The Department reviews an applicant's operating and financial plans to see whether the applicant has a reasonable understanding of the costs of starting its operations and either has on hand, or has a specific and verifiable plan for raising, the necessary capital to commence operations.¹ Specifically, when finding an applicant fit to conduct air transportation, the Department requires the applicant to demonstrate that it will have access to sufficient resources to cover pre-operating costs (*i.e.*, all of the costs incurred prior to the actual commencement of flight operations) plus the operating expenses that are reasonably projected to be incurred by the applicant during three months of "normal" operations.² In addition, if the applicant's most recent balance sheet shows a negative working capital balance, the amount of that working capital deficit will be considered a pre-operating expense in calculating the amount of funds that the applicant must have available to meet the financial fitness criteria for the proposed operations.

In its initial application, FAI provided projected pre-operating costs for only the first three months preceding operations. Those costs totaled \$3.5 million. Additionally, the applicant provided projected first-year operating costs of \$547 million, one quarter of which is approximately \$137 million. Thus, based on its initial application, FAI would have had to demonstrate that it had access to approximately \$140 million. In a subsequent filing on October 3, 2008, FAI stated that as of September 16, 2008, it had paid \$6,839 in pre-operating expenses and estimated that the applicant expected to incur additional pre-operating expenses of \$48.4 million. Applying this revised estimate of pre-operating expenses, assuming FAI's first year operating projections remain the same, FAI would need to have access to \$185.4 million to commence its proposed operations.

FAI's balance sheet at September 16, 2008, showed the applicant having total current assets of \$30 and current liabilities of \$14,496, giving the company negative working capital of \$14,466. Further, the applicant reported negative shareholder equity of \$11,518. Thus, FAI currently does not have access to sufficient financial resources to commence its proposed operations. In its October 3, 2008, filing, FAI states that it expects to raise at least \$150 million through a stock offering. Although the Department has found applicants fit on the basis of their plans to raise capital, such plans have always been specific and verifiable and the application has otherwise not raised concerns. FAI has not provided verifiable information on its funding plans, such as a letter from a financial institution committing to assist FAI in raising a specific amount of capital along with copies of offering documents, and, as discussed in this letter, we have other significant concerns with FAI's application.

1 Before being granted effective authority, the applicant must submit third-party verification that it has acquired the necessary capital to conduct its operations.

2 Because projected expenses during the first several months of operations do not include all costs that will be incurred during a "normal" or average period of operations, the three-month standard is calculated by dividing the applicant's estimated total first year operating expenses by four.

We also remain seriously concerned about FAI's compliance disposition so long as you remain involved with the company. As previously discussed in letters between FAI and the Department, we note that several years ago, you were involved with a similarly-named applicant, Family Airlines, Inc. ("Family Airlines"). According to our records, the Department had concerns about your involvement with that applicant and, after repeated attempts to resolve the issues, that application, ultimately, was dismissed for dormancy. The fact that you were convicted of securities fraud in connection with that prior application is especially troubling to us as it concerns FAI's compliance disposition, particularly since you control the company and intend, once more, to solicit investor funds to finance the start of FAI.

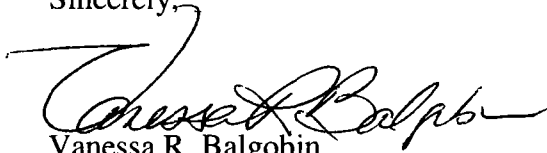
Given these facts, the Department has been hesitant to move forward with FAI's application as long as you continue to be involved with the air carrier. For that reason, in our May 13, 2008, letter, we requested that you reduce your involvement with the applicant to a more passive role. However, in FAI's May 30, 2008, response, we were informed that you would not take a passive role. Subsequently, in our September 4, 2008, letter to FAI, we requested specific information about your past activities to enable us to review your disposition toward compliance with laws, rules, and regulations.³ Despite our request, FAI in its October 6, 2008, response to the Department, refused to provide the requested information. Since FAI refuses to provide us with the information we must have in order to determine the applicant's compliance disposition under your control and refuses to reduce your involvement with the applicant, based on the information now before us, we are unable to find FAI fit.

When the Department receives an application, we expect that the applicant is fully prepared and willing to prosecute its application. Considering FAI's failure to date to meet its burden of establishing its managerial competence, its financial ability to begin operations, and its compliance disposition, the Department does not intend to continue to process FAI's application unless the air carrier takes immediate steps to rectify these shortcomings. Therefore, we direct FAI to satisfactorily address the Department's concerns expressed in this letter and provide the information in the attached Information Request within 14 days from the date of this letter. In the absence of FAI responding to this request and taking steps to meet its burden of establishing its fitness, we intend to begin proceedings, through issuance of a show-cause order, to dismiss FAI's application.

³ The Department looks at the applicant's compliance record to see whether it and its owners and managers have a history of safety violations or consumer fraud activities that would pose a risk to the traveling public, or whether other factors indicate that the applicant or its key personnel are unlikely to comply with government laws, rules and directives.

If you have any questions concerning this letter or FAI's application, please feel free to contact me at (202) 366-9721.

Sincerely,

A handwritten signature in black ink, appearing to read "Vanessa R. Balgobin", with a large, stylized initial "V" and a long horizontal flourish extending to the right.

Vanessa R. Balgobin
Analyst, Air Carrier Fitness Division

Attachment

cc: Docket DOT-OST-2008-0029

Information Request
Family Airlines Incorporated ("FAI")

Management

1. It appears that FAI has experienced several changes to its key management and technical personnel since filing its January 24, 2008, application. Therefore, we request that FAI provide—
 - a. An updated list of FAI's key personnel.⁴ This list should also identify the key technical personnel (Director of Operations, Director of Maintenance, Director of Safety, Chief Pilot, and Chief Inspector) meet the qualifications for their respective positions as set forth in §§ 119.65 and 119.67 of the Federal Aviation Regulations (14 CFR § 119.65 and § 119.67).
 - b. A statement that the key technical personnel identified in Item 1.a. meet the qualifications for their respective positions as set forth in 14 CFR § 119.65 and § 119.67 and have been approved by the Federal Aviation Administration.
 - c. For each such individual who has joined or will join FAI since the applicant's last submission, supply a resume detailing his or her experience, expertise, and responsibilities, and compliance history information as required by sections 204.3(l), (m), (o), and (p) of our rules.⁵
 - d. A revised organization chart showing positions and operating divisions within the organization that depicts which positions and functions report to whom.

⁴ "Key personnel" refers to the President, Chief Executive Officer, Chief Operating Officer, General Manager, Chief Financial Officer, Vice President(s), the Director of Operations, the Director of Maintenance, the Chief Pilot, the Director of Safety, and the Chief Inspector, as well as the Chairman and members of the Board or other key officials who may not be involved with the day-to-day operation of the company but who are primary stockholders and/or whose influence on the actions or policies of the applicant is, or potentially could be, substantial.

In addition, if FAI proposes to contract out any maintenance or training functions, the corporate position that will be responsible for overseeing those contracts should be identified along with the name, background, and credentials of the individual selected for this position. FAI should also indicate to whom in the corporate structure this position will report, how the oversight will be accomplished, and whether the position is part-time or full-time.

⁵ Resumes should be thorough and reflect the individual's current position with FAI as well as a complete employment history. Start and end dates should contain the month and year, and any gaps in employment should be explained. If the individual is currently employed elsewhere, state the date that the individual was formally offered employment with FAI, the date that the offer was accepted, and the individual's anticipated start date. Further, if the individual is currently working for both FAI and another employer, indicate the number of hours the person works each week for FAI and the number of hours the individual works per week for the other employer. Also indicate whether or not this split employment is temporary or permanent. If it is a temporary arrangement, indicate when it is expected to end.

- e. The citizenship of each individual listed in Item 1.a.
- f. The amount of FAI stock held by each person listed in Item 1.a.
- g. The FAA license number for persons holding pilot or airframe and powerplant licenses.

Finances and Operations

- 2. Provide a copy of any and all offering document(s), private placement memoranda, stock purchase agreements, etc., associated with FAI's proposed \$150 million funding plan.
- 3. Identify the investment bankers or underwriters handling the offering for FAI stock.
- 4. Provide third-party verification from the investment banker or underwriter as to its commitment to assist FAI in raising \$150 million.
- 5. Discuss the status of FAI's stock offering(s).
- 6. Provide independent, third-party verification of all funds currently on deposit in FAI's name.
- 7. In its October 3, 2008, filing, FAI states that it no longer intends to finance its aircraft; rather, the applicant intends to purchase its aircraft using funds raised from its stock offering. Please submit revised projected expenses.
- 8. Provide an aircraft introduction schedule.

Compliance Disposition

- 9. We have reason to believe that Mr. Michaels may be involved with several relevant corporations that were not disclosed in FAI's initial application. Please identify all other business entities either owned or controlled by Mr. Michaels, or businesses where he is listed as a director, officer, or key person. For each business, state the nature of the business, Mr. Michael's title and duties related to the business, and what percentage of Mr. Michael's time is committed/devoted to that entity.
- 10. State whether FAI is willing to take any action to mitigate the Department's concerns about the applicant's lack of compliance disposition under the majority ownership and control of Mr. Michael and, if so, describe in detail what actions will be taken and when they will be accomplished.

The information provided pursuant to this Information Request should be accompanied by the following certification:

The contents of this application and the attached exhibit (s) are true and correct to the best of my knowledge and belief. Pursuant to Title 18 United States Code Section 1001, I [*the individual signing the application, who shall be a principal owner, senior officer, or internal counsel of the applicant*], in my individual capacity and as the authorized representative of the applicant, have not in any manner knowingly and willfully falsified, concealed or failed to disclose any material fact or made any false, fictitious, or fraudulent statement or knowingly used any documents which contain such statements in connection with the preparation, filing or prosecution of the application. I understand that an individual who is found to have violated the provisions of 18 U.S.C section 1001 shall be fined or imprisoned not more than five years, or both.